

City of Santa Fe, New Mexico
Notes to the Financial Statements
June 30, 2003

Capital Outlay	\$ 16,136,045
Less: Capital Outlay - Inventory Exempt	(2,776,689)
Depreciation Expense	(8,876,532)
Net Adjustment to Increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 4,482,824</u></u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.” Neither transaction however has any effect on net assets. Also, governmental funds report the deferred and amortized amounts in the statement of activities. The details of this \$8,340,250 difference are as follows:

Principal Repayments:	
Revenue Bond Debt	\$ 7,820,000
Capital Lease Payments	520,250
Net Adjustment to <i>decrease net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ 8,340,250</u></u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$137,649 difference are as follows:

Compensated Absences	\$ 100,126
Amortization of Deferred Charges	(32,907)
Amortization of Bond Premiums	70,430
Net Adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u><u>\$ 137,649</u></u>

III. Stewardship, compliance and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end.

The City is required to submit a proposed budget, which has been approved by the governing body, for each fiscal year on or before June 1st with the State of New Mexico Local Government Division of the Department of Finance and Administration. Before July 1st, the Local Government Division approves and certifies an operating budget for use pending approval of the final budget. Prior to the first Monday in September, the Local Governmental Division must certify a final budget for the municipality.

The Local Government Division must also approve the following changes throughout the fiscal year:

1. budget increases;

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2. transfers of budget between funds;
3. transfers of cash, both permanent and temporary, between funds; and
4. any combination of the above.

New Mexico state law prohibits municipalities from making expenditures in excess of the approved expenditures. State law mandates that municipalities develop and operate within the confines of a balanced budget. The total amount which the governing body appropriates in any particular fiscal year cannot exceed the probable amount of money available at the beginning of the year (cash balance or reserves) plus anticipated revenues during the fiscal year. As required by the state, the City prepares a budget for all fund types.

The Housing Authority's budget (for the PHA-Locally Owned and Home Ownership Opportunity Programs and the Section 8 Housing Programs) is prepared by management. The Housing Authority is included in the combined financial statements as a component unit.

The Santa Fe Housing Development Corporation's 18-month budget is prepared and approved by the Housing Authority's governing board. The Corporation is included in the combined financial statements as a component unit.

The Santa Fe Civic Housing Authority has La Cieneguita as an unbudgeted fund.

The appropriated budget is prepared by fund, function and department. The City manager may approve requested transfers of appropriations within a fund for amounts less than \$20,000. Transfers of appropriations in excess of \$20,000 or between funds and all budget increases require the approval of the City council. The legal level of budgetary control (i.e. the level at which expenditure may not legally exceed appropriations) is the department or fund level. The City council approved supplemental budgetary appropriations during the fiscal year, primarily for new grant awards and additional project funds, which did not materially affect cash reserves of related funds.

Encumbrance accounting is employed in all funds, which represents commitments related to yet unreceived or unperformed goods or services. Encumbrances (purchase orders, contracts and other commitments for the expenditure of resources) are reported as reservations of fund balances for governmental funds and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of expenditures/expenses over appropriations

For the year ended June 30, 2003, expenditures/expenses exceeded appropriations in the following funds:

The Workers' Compensation Fund, reported as an Internal Service Fund, is reporting excess expenditures over appropriations of \$45,200. Part of this deficit was caused by medical payments which exceed anticipated costs. The balance of the amount over-expended was funded by available cash balance.

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The Municipal Recreation Complex, reported as an Enterprise Fund, is reporting excess expenses over appropriations of \$1,111,854. This was caused by depreciation expense which is a non-budgeted item.

The Genoveva Chavez Community Center, reported as an Enterprise Fund, is reporting excess expenses over appropriations of \$415,938. This was caused by depreciation expense which is a non – budgeted item.

The Santa Fe Development Corporation, reported as a component unit, is reporting excess expenses over appropriations of \$71,564. The overage was funded by net assets.

C. Deficit fund equity

The Municipal Recreation Complex, reported as an enterprise fund, has a deficit fund equity of \$3,796,460 as of June 30, 2003. The deficit is the result of a portion of the bond proceeds being required for start-up costs, including capitalized interest and working capital. In addition, retained earnings were reduced by the current year depreciation.

IV. Detailed notes on all funds

A. Deposits and investments

At year-end, the carrying amount of deposits for the City of Santa Fe was \$5,820,609 and the year-end bank balance was \$7,767,906. The total of demand deposits and short-term certificates of deposit were covered by Federal Depository Insurance or by collateral held by the City's agent in the City's name.

The carrying amount of deposits for Housing Authority, presented as a component unit, was \$896,113 and the bank balance was \$1,112,005. All bank balances should be covered by federal depository insurance or by collateral held by the City's agent in the Housing Authority's name. However, two accounts were discovered to be under-collateralized, which has since been corrected.

The amount of the City's investment in the New Mexico State Treasurer's Pool is reported at cost; the fair value is equal to the invested amount. The Local Government Investment Pool is operated by the State Treasurer's Office within the guidelines of state statute; compliance is ensured by the State Board of Finance.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, with securities held by the City or its agent in the City's name.
2. Uninsured and unregistered, with securities held by counterparts trust department or agent in the City's name.